Daily Economic News Summary: 22 June 2017

1. Starting a business down to 5 processes: India to World Bank
Source: The Economic Times (Link)

India has conveyed to the World Bank that processes for starting a business in the country have been reduced to five from 14 in the past year, in response to its survey on ease of doing business. After India rose only one rung to no. 130 among 190 countries in the World Bank's 2017 ease of doing business report, New Delhi complained that several of its reforms had not been acknowledged. India now wants to ensure the World Bank takes note of all reforms in its 2018 rankings. According to officials, in a reply to a World Bank questionnaire, India said five procedures — including obtaining direction identification number, permanent account and tax deduction account number (PAN and TAN) —have been merged into one. Besides, processes for employee provident fund have been moved online and inspection requirements done away with, further reducing the number of steps. In the 2017 report, India was ranked 155 among 190 countries on 'Starting a Business' parameter — one of 10 factors on which the World Bank ranks countries on the ease of doing business.

5 points of ease

1) Five procedures, including obtaining DIN, PAN and TAN merged,

2) Processes for employee provident fund online,

3) Removal of company seal as well as digital signature requirement,

4) Bank accounts not required mandatorily for any forms,

5) No more inspection under the Shops and Establishment Act

2. GST rollout: Here is why it is crucial for India to get the reform right
Source: Financial Express (Link)

Finance minister Arun Jaitley was being optimistic when he said that buoyant indirect tax collections in April and May were a sign that previously undeclared goods and services were coming into the tax net. Manufacturers and service providers, the argument goes, know that once GST stabilises, it will not be possible for them to hide their output from the taxman—so, Jaitley said, they had already started coming into the tax net. That seems a bit hasty since, for one, GST has not been introduced as yet and, more important, if the experience of the post-demonetisation amnesty scheme is anything to go by, the tax thief is made of sterner stuff. Unlike demonetisation, though, GST is more sophisticated because of its invoice-matching. So, if Firm A declares sales of X to Firm B, then B cannot be declaring X/2 of inputs—and B's output, in turn, is C's input. This invoice-matching is crucial because, right now, India's tax collection effort is very poor. While central tax-to-GDP has fallen from 11.9% in FY08 to 11.2% in FY17, excise-to-manufacturing GDP fell from 18.5% in FY07 to 17.2% in FY17. Indeed, as the GST report prepared by chief economic advisor Arvind Subramanian points out, India's tax-collection efficiency is a mere 43%—this is the tax collection efficiency for excise, service tax and VAT which, together, comprise GST. That is, if the real tax base is Rs100, the tax-man is able to tax only Rs43 for a variety of reasons including corruption. This collection efficiency, in the case of emerging market economies, averages around 57% and rises to 60% in the case of rich nations…one of the first things that GST will provide, once it stabilises, is an idea of just how big India's tax-base is. Thanks to the invoice-matching across millions of shops and establishments and manufacturing outlets, done by a computer 24×7, chances are the size of the taxable base will be much larger than most imagined. In which case, the dividend that the government failed to realise from its demonetisation drive may well be made available through the implementation of GST.

3. India invites Russia defence firm for joint manufacturing
Source: Business Standard (Link)

Showcasing India's "path-breaking" initiatives for defence production, Union minister Arun Jaitley on Wednesday invited Russian companies to set up joint ventures with Indian firms and manufacture advanced military platforms through technology transfer. Addressing the plenary of TECHNOPROM 2017, a leading forum for technological development, the defence minister said Russian defence majors which already have a long experience of working in India are well placed to take advantage of the policy changes effected to encourage tie-ups between Indian and foreign companies. Jaitley, who is in Russia on a three-day visit beginning Wednesday, said Indian companies are already gearing up to take advantage of policy initiatives in the defence sector by developing capabilities for design and development of military systems…Jaitley said Russian companies could be “natural partners” of the Indian companies as most of India’s defence equipment and inventory were of Russian origin. In a major step towards defence indigenisation, the Indian government last month unveiled a “strategic partnership” model under which select private companies will be engaged along with foreign entities to build military platforms like fighter jets, submarines and battle tanks.

4. Global investors shun India as steep taxes make mining unviable
Source: Business Standard (Link)

A higher tax burden on the mining industry in India compared to other resource-rich countries is making mining an unviable activity and driving away investments from the sector. A huge gap has been found between the effective tax rate (ETR) on mining in India vis-a-vis other mineral-rich nations such as Australia, Canada, South Africa, the US and Mongolia. Data by the Federation of Indian Mineral Industries (Fimi) shows that the ETR on an iron ore mine in the country, after including a cocktail of levies, comes to 64 per cent in the case of new mines allocated after the amended Mines and Minerals- Development & Regulation (MMDR) Act, 2015. For the older mines, it is still higher at 69 per cent… A comparison with other countries establishes India's steep taxation on the mining sector. In Canada, the ETR varies from 34 per cent to 39.5 per cent, depending on the mining jurisdiction. The ETR is 45.5 per cent in Indonesia's West Papua province, and 38 per cent in that country's Sulawesi region. Other countries with ETR lower than India include Namibia (44.2 per cent), South Africa and Australia (both 39.7 per cent) and Chile (37.6 per cent). At 31.3 per cent, Mongolia has the lowest ETR on mining. R K Sharma, director general of Fimi, said, “The high taxation on mining in India, along with inordinate delays in the grant and development of mines, has already led to several major international players exiting the country. While resource-rich nations are competing to attract investors to explore, mine, contribute to socio-economic growth and create new employment opportunities by unlocking their own mineral potential, in India, we are making it difficult for investors with state-of-the-art technologies to invest in exploration and development of mineral resources.” According to a World Bank report, countries that compete for mineral sector investment and generally offer terms of ETR between 40 per cent and 50 per cent.

5. India asks Qatar to invest in power plants as conditions for LNG deals
Source: The Hindu (Link)

India said it would sign future long-term liquefied natural gas (LNG) purchase deals with Qatar if only Doha agrees to acquire stakes in the South Asia nation's power plants, oil minister Dharmendra Pradhan said. India is the lasts major LNG buyer to see k concessions from Qatar, the world's biggest LNG exporter, in order to re-sigh long-term supply contracts. Amid a global glut of LNG and a slump in prices, other buyers have sought more flexible contracts, including clauses that would allow them to resell gas they do not consumer…India is suffering from natural gas shortages that have required power plants with capacity of as much as 25,000 megawatts to shut down or run lower rates. Qatar's RasGas is India's biggest LNG supplier.

6. US announces $ 7.5 million to advance India's power grid
Source: Financial Express (Link)

Ahead of Prime Minister Narendra Modi's visit to the US, the Trump administration said today it will spend USD 7.5 million to help advance India's power grid, as part of the two countries' commitments to ensuring access to affordable and reliable energy. The Ministry of Science and Technology and industry will match the commitment of US' Department of Energy, bringing the total commitment to USD 30 million, officials here said. "This new consortium demonstrates the US and Indian commitments to ensuring access to affordable and reliable energy in both countries," Energy Secretary Rick Perry said. "We know that continued grid innovation will promote economic growth and energy security in the United States and India," he said. The initiative, part of America's commitment to fostering the reliable, resilient and secure delivery of electricity, was needed for the strong US national security, economic growth and global leadership, as well as furthering Department of Energy (DOE)'s collaboration with India under the US-India Partnership to Advance Clean Energy (PACE), officials said. The US-India collaboration for smart distribution system with storage (UI-ASSIST) was selected as the new consortia for Smart Grid and Energy Storage under the US-India Joint Clean Energy Research and Development Center (JCERDC), the DOE said in a statement. To help pave the way to a more advanced distribution grid that will allow greater use of distributed energy resources such as microgrids and energy storage, the new consortia will bring together experts from academia, DOE's national laboratories and industry, it said.

7. World Bank sanctions 44 million dollars for ASPIRe
Source: Financial Express (Link)

World Bank's Board of Executive Directors has approved a loan assistance of 44 million dollars for the Assam State Public Finance Institutional Reforms (ASPIRe) Project. The loan was sanction by World Bank (International Bank for Reconstruction and Development) in its meeting held on June 15 at Washington DC, USA, an official release said here today. Chief Minister Sarbananda Sonowal expressed his gratitude towards Prime Minister Narendra Modi for supporting the ambitious project and facilitating the approval. The project aims at improving predictability and transparency in budget execution and efficiency in tax administration in Assam. All government departments and functionaries – especially finance, taxation and excise departments – will benefit immensely from this project while the citizens of Assam will see transformative benefits accruing to them through efficient processes, better service delivery such as electronic payments and collections for services. ASPIRe project is based on three important components that act as pillars for institutional reforms – strengthening public finance institutional capacity, strengthening expenditure and revenue information systems and on project management, monitoring and evaluation, and coordination.

8. Why India's steady, if not spectacular growth in Global Innovation index is worth noting
Source: The Economic Times (Link)

Officials responsible for the Global Innovation Index (GII) caution against comparing performances of countries across the years too much. Indicators and situations change, they say, and conclusions drawn by such comparisons can be wrong sometimes. A close reading of indicators and the performance of countries in GII support this argument. But a historical analysis also shows certain patterns do not change. Ten years of GII data clearly reveal India is improving, but also that it is still some way from joining the big league of innovative nations…The rankings began in 2007, when the study was done only by Insead. In 2011, when WIPO joined the exercise, the model was changed substantially, making comparisons of previous years less relevant. India stood at 62 in 2011. Its rank kept going down over the years, and was at 81 in 2015. The country reversed the trend in the last two years. This year it came in at 60. The GII report calls India an innovation achiever in its economic class of low-middle income nations. India has remained an innovation achiever for the last seven years. Such rapid changes were seen in some other countries in the middle group of innovative nations, as policies and economies changed rapidly. Vietnam has had fluctuating fortunes, too; from 71 in 2014, it climbed to 47 this year after an up and down ride over four years. Ukraine improved steadily from 63 in 2014 to 50 this year. Top 10 nations have not changed. China improved steadily over the years and is at 22 now. India has shown some strengths in the last few years — its large base of science and engineering graduates, presence of global R&D companies, scale of domestic market and so on. India has improved its innovation efficiency, which means it is getting more out of its inputs. But it has some glaring weaknesses too— poor student-teacher ratio, poor business environment, poor environmental performance… “Innovation is like a chain,” says Dutta.

9. Paper mills seek dumping duty
Source: Business Standard (Link)

Paper mills have urged the government to impose anti-dumping duty on imports of paper and newsprint to protect the local industry. India imported 3 million tonnes of paper and newsprint in 2016-17, up from 2.61 million tonnes a year ago. In value terms, imports rose from Rs 12,284 crore in 2015-16 to Rs 13,937 crore a year later. Imports from ASEAN countries have grown at 24.54 per cent a year to 344,700 tonnes in 2016-17. "The conventional markets for Chinese and Indonesian exporters are the US and the EU. In both these markets anti-dumping or anti-subsidy tariffs have been imposed on import of paper and paperboard to protect their domestic industries," said Rohit Pandit, secretary-general, Indian Paper Manufacturers Association (IPMA). India has 15.2 million tonnes of paper and newsprint manufacturing capacity, which is not fully utilised. The mill-delivered cost of wood in India is $30-40 more per tonne than in other Asian countries.

10. NCAER pegs FY'18 GDP growth at 7.6% on normal monsonn
Source: The Economic Times (Link)

Economic think-tank NCAER has revised up its projection for the country's economic growth to 7.6 per cent for the current fiscal, compared with the earlier prediction of 7.3 per cent on forecast of normal monsoon. In its quarterly review of the economy, NCAER said prospects for the agricultural sector in 2017-18 remain optimistic on forecast of good rains. Recent estimates show that food grain production in 2016- 17 has touched a new record of 273.4 million tonnes or 8.7 per cent higher as compared to last year. Also, the level of water storage in the country's main reservoirs in 2017-18 is better compared to last year. In fact, better than the average storage over the last ten years. "The forecast for growth of Gross Domestic Product (GDP) at market prices in 2017-18 is 7.6 per cent at constant (2011 -12) prices," said the National Council of Applied Economic Research (NCAER)…The economy grew 7.1 per cent in 2016-17, lower than 7.6 per cent against 8 per cent a year ago. The World Bank has forecast growth to be 7.2 per cent during 2017-18.